

### Euler Hermes: Slower World Trade Growth Expected In 2008

**July 17, 2008 (OWINGS MILLS, MD) – Leading accounts receivable insurer Euler Hermes ACI has issued its mid-year 2008 Global Risk Analysis Report for emerging economies. The report is calling for lower global GDP growth and reduced world trade volumes for the remainder of the year.**

**World:** Expect world growth of just below 3% in 2008 and 2009 with the United States at 1.1% and 1.4%, Japan at 1.7% and 1.4%, and the Euro-zone at 1.8% and 1.4%. Moreover, the risks remain to the downside and the slowdown could be prolonged as the world adjusts to the headwinds of financial de-leveraging and tighter commodity markets, particularly oil. Expect inflationary pressures to limit the scope for further monetary easing in the near term and the upside when recovery does get underway. The more adverse external environment puts the spotlight firmly on sound policies and stable government in emerging economies, which, so far, are weathering the downturn fairly well, though they are not immune. World trade growth has slowed further and will dip below 6% in 2008 (8.5% 2004-07 average). Expect protectionist calls to increase. Iran and the Middle East generally remain key potential flashpoints in global politics, while the U.S. presidential elections inject a further note of uncertainty.

**Asia:** High inflation in India has prompted monetary tightening and inflationary pressures are also a serious problem for Pakistan's new civilian government. China's policymakers must weigh slowing external demand against vigorous policy tightening to curb inflation, while avoiding inadequate tightening that stokes overheating. Cross-strait tensions have lessened with the election of a pro-unification president in Taiwan. Expect rising inflation to be a further strain on ASEAN growth after strong Q1 growth — particularly in Vietnam, which is on a knife edge as it also struggles to contain the impact of overheating on the external balance. Just five months after the restoration of democracy, Thailand faces renewed uncertainty with large-scale anti-government protests and coup rumors, while in Malaysia the ruling UMNO party for the first time is being seriously challenged by the opposition. Expect regional growth of 7.6% in 2008 and 7.2% in 2009 (8.8% 2004-07 average).

**Latin America:** Inflationary pressure has been met with higher interest rates in much of the region — including Brazil and Mexico — as central banks have moved to damp expectations, underscoring improvements in the policymaking framework that augur well for the region's resilience to financial crisis. Nonetheless, expect regional growth to slow to 4.1% in 2008 and 3.6% in 2009 (5.5% 2004-07 average). As commodity exporters, many economies' external balances remain supported, but a reversal of recent trends could pose problems. There are exceptions to the positive response to accelerating inflation, notably Venezuela and Argentina, where there is little evidence of inflation being dealt with effectively. In Ecuador and Bolivia radical left leaderships are struggling to push through constitutional reforms. Central American and Caribbean economies, highly dependent on tourism and remittances from the United States, remain in the forefront of the regional slowdown.

**Central and Eastern Europe:** Regional growth maintained strong momentum in Q1, with real GDP up 7% yr/yr, but accelerating inflation—the regional average hit 12% yr/yr in May — is a cause for concern. Expect necessary monetary tightening to slow growth to about 5.6% in 2008 and 5% in 2009. While Estonia and Latvia are already on course for a “hard landing”, overheating concerns also persist in Romania and Bulgaria and have emerged in Russia and Ukraine. Continued political instability increases already high country risk in Turkey and Ukraine at a time when large and growing macroeconomic imbalances and the deteriorating global environment require sound economic policies. Slovakia re-valued the central parity rate of the koruna against the euro within ERM2 by 15% and will join the euro zone in January 2009. Kosovo's unilateral declaration of independence from Serbia is threatening the region's fragile post-war balance, particularly in B&H and Macedonia.

## Press Release



**Middle East:** The outlook remains uncertain, despite attempts to negotiate some disputes, including the Palestinian issue and Israeli-Syrian border claims, and some progress in bridging Lebanon's sectarian divides. Iran and Iraq continue to be key pressure points. Moreover, while high revenues are boosting fiscal and current accounts of oil and gas producers, economic data are not uniformly good, with inflationary pressures building across the region, and calls for exchange rate regimes to be revised. However, GCC economies with a fixed US dollar peg are unlikely to alter their systems in the short term, partly because of their large dollar-denominated external assets. With high food and fuel prices building social discontent, expect increased government subsidies, and some regimes to tighten domestic security. Expect regional annual growth of 5.8% in 2008 and 5.5% in 2009 (5%+ average since 2003).

**Africa:** An anticipated slowdown in regional growth has yet to materialize in the broad numbers. Nonetheless, expect the increase in overall GDP to moderate to 6.8% in 2008 and 6.3% in 2009. This will result from uncertain output from some oil exporters (Nigeria) and structural factors (including power shortages in South Africa). However, strong growth is likely to prevail for relatively new oil producers, particularly Angola and Sudan, and some non-oil commodity suppliers, including Ethiopia, Mozambique, Tanzania and Zambia. Kenya's new power-sharing government has yet to forge a united front but the ethnic violence earlier this year appears to have dissipated. Similarly, riots in Q1 in Cameroon will dent 2008 growth there. The political and economic problems of Zimbabwe have the potential to derail sub-regional progress, particularly if refugee flows engender further outbreaks of xenophobia.

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